Salient®

Potential Opportunities For Income

- Emerging Market Corporate Bonds
- High-Yield Municipal Bonds
- International Real Estate

Weaker Opportunities For Income

- International Sovereign Bonds
- Treasurys

MARKET REVIEW

Volatility Persists

The market volatility that characterized most of February carried into March. Global stocks declined -2.21% led by a selloff in Japan, which declined by -2.79%. The decline was exacerbated only slightly by a decrease in the yen versus the U.S. dollar. Europe was the best performing segment of global stocks, declining -1.20%. However, the increase of the euro relative the U.S. dollar accounted for a substantial portion of the relative outperformance; in local currency, European stocks declined -2.02% for the month. Emerging markets gave up some of their year-to-date relative outperformance and declined -1.99% as the weight of a possible trade war dragged down Chinese stocks. U.S. stocks continued to be a market underperformer, declining -2.54% as the potential for a protracted trade war with China also weighed on future growth. On a bright note, small-cap U.S. stocks performed well with a gain of 1.29%. Defensive sectors rebounded as interest rates stabilized during the month with U.S. real estate increasing by 3.78% and utilities increasing by 3.76%.

Bonds recovered slightly in March with global bonds rising by 1.07% in U.S. dollar terms thanks to the euro's appreciation relative the dollar and a moderation in the rise of global interest rates. After removing the impact of foreign currency, global bonds increased by 0.83%, similar to U.S. bonds, which increased by 0.64%. Credit sectors gave back some of their recent relative outperformance as the possibility of slower economic growth gave rise to potential increases in spreads. U.S. corporate high-yield bonds declined by -0.60% while Treasurys increased by 0.94%.

STOCKS vs. BONDS

Despite Volatility, Stocks Carry On

Following the February selloff, stocks rallied several times before retesting their lows toward the end of March. Since then, stocks have been trading in a very tight range and nearly every indicator of investor sentiment is showing an extreme level of fear. There are a few things to gather from these movements:

1. It appears that a base has formed around the February and March lows and we believe it is positive if that continues to hold. A point of resistance has also formed around the February and March highs. Watch for the market breaking through this point as a potential indicator for an improving stock market.
2. We expect the same volatile swings experienced in February and March to persist until the points of support and/or resistance are broken.
3. The potential of a protracted trade war with China matters to investors as evidenced by its threat's effect on the market.

From a long-term perspective, volatile and sideways moving markets are typical in an election year. The good news is that we are entering earnings season, which we believe will be largely positive based on the movement of many street estimates. This season could be a positive catalyst for the market, especially since the many market participants are so bearish currently. At minimum, we believe that the resolution of the election should be a positive.

OUTLOOK

Beware of Bonds

As we discussed at the beginning of the year, the relatively flat yield curve corrected itself somewhat during the quarter, but took a bite out of Treasurys. We suggested that investors might look to short-duration bonds or cash to find healthy yields while potentially protecting against drawdowns. This strategy turned out to work quite well during the quarter and is a strategy that we believe investors can rely on as the interest rate environment continues to inject risk into the market. Additionally, credit held up well during the rate volatility, so we believe investors should continue to look to high-yield muni bonds, high-yield corporate bonds and emerging market corporate bonds as a way to diversify away from interest-rate risks. Investors should be careful allocating to the terrible performing rate-sensitive sectors like utilities as market volatility persists.

One of the brightest spots for investors has been emerging market stocks, which escaped the bulk of the February/March drawdown. This performance is consistent with our expectations as emerging markets have the best valuations and earnings growth on a relative basis. The performance is also a good indicator of what to expect once the current market condition resolves itself. As of now, the global stock market appears to have settled into a volatile sideways churn, which we believe is likely to continue until some point before the November elections. Historically, resolution of an election period is a positive for markets. The potential for a protracted trade war with China is one of the chief concerns for the market, thus a shift in congressional power might be viewed as a positive by the market as it could temper any acceleration in the trade war.

FUN FACT

Immortality With a Catch

A startup called Nectome has developed a technology that can scan your brain in immense detail, apparently capturing every connection between neurons in your brain. Theoretically, this development should allow the scan to capture every memory you have ever had and set in place a method to upload your brain to a computer, if and when that technology becomes available. The catch? The process is 100% lethal. Therefore, the company intends to focus on volunteer participants who are near death. The process is expected to be a type of voluntary euthanasia. The idea has already sparked quite of bit of controversy as many believe it is no different than the cryogenics craze of the past. At any rate, the company claims to already have several paying volunteers.

Methodology

To learn more about the methodology visit the Salient Partners blog posting at www.salientpartners.com. You can also follow us on Twitter at @nrowader and @NicMillikan for live updates on the Income Report Card.

Asset Class Key

Bonds	
U.S. Bonds	Bloomberg Barclays U.S. Aggregate Bond
U.S. Treasurys	Bloomberg Barclays U.S. Treasury
U.S. Investment-Grade Credit	Bloomberg Barclays U.S. Credit Bond
Municipal Bonds	Bloomberg Barclays U.S. Municipal Bond
High-Yield Municipal Bonds	Bloomberg Barclays U.S. Municipal High Yield
U.S. High-Yield Corporate Bonds	Bloomberg Barclays U.S. Corporate High-Yield Bond
Emerging Market Corporate Debt	CS Emerging Markets Corporate Bond
Emerging Market Sovereign Debt	Bloomberg Barclays EM Sovereign Bond
International Sovereign Debt	Bloomberg Barclays Global Treasury ex-USD
Mortgages	Bloomberg Barclays U.S. MBS
Short-Term Treasurys (Cash Proxy)	Bloomberg Barclays U.S. Treasury Bond 1-3 Year Term
Global Bonds	Bloomberg Barclays Global Aggregate Bonds

Stocks	
U.S. Stocks	S&P 500 Index
International Stocks	MSCI EAFE
Emerging Market Stocks	MSCI Emerging Markets
U.S. Real Estate	Dow Jones U.S. Real Estate
MLPs	Alerian MLP Infrastructure
Preferred Stocks	BofA Merrill Lynch Core Fixed Rate Preferred Securities
Utilities	S&P 500 Utilities Sector
International Real Estate	Dow Jones Global ex-U.S. Select Real Estate
EM Infrastructure	MSCI EM Infrastructure
Japan	MSCI Japan
Europe	MSCI Europe
Small Cap Stocks	Russell 2000
Global Stocks	MSCI All Country World Index

Income Report Card: Stocks

Grades: Quintile rankings of asset classes
Downgrade Upgrade No Change

Trend: 12-month momentum
Carry: Current yield / current std. deviation

Risk: Based on 60-day std. deviation

U.S. Stocks

Yield: 1.95% **Risk:** 20.52%

TREND	CARRY	
A	F	U.S. stocks continue to outperform, eroding the income we are looking for. U.S. stocks continue to offer one of the worst absolute levels of income in our stock universe. We see U.S. stocks as a solid total return option and can be used as a good hedge against inflation and rising rates with continued regulatory changes.

International Stocks

Yield: 3.19% **Risk:** 12.89%

TREND	CARRY	
B	C	Developed foreign markets have benefitted greatly by the slowdown in bond purchases by the European Central Bank and Bank of Japan. Additionally, the U.S. dollar has seen a further decline relative to the euro and yen, significantly benefitting this asset class. Caution might be in order as the U.S. dollar is extremely oversold.

Emerging Market Stocks

Yield: 2.42% **Risk:** 15.91%

TREND	CARRY	
A	D	Emerging market stocks still produce low income, but the asset class offers strong diversification away from the U.S. economic environment. The strong trend, valuation and possible change in the long-term cycle all favor this asset class.

U.S. Real Estate

Yield: 4.29% **Risk:** 17.77%

TREND	CARRY	
D	C	The positive correlation with bonds should be taken seriously, especially for any investor with a large position in fixed-rate bonds. Values need to improve here to provide income justifying a position.

Master Limited Partnerships (MLPs)

Yield: 8.76% **Risk:** 24.25%

TREND	CARRY	
F	B	Volatility remains very high in this asset class and needs to moderate before increasing positions.

Preferred Stocks

Yield: 5.66% **Risk:** 3.30%

TREND	CARRY	
C	A	Preferred stocks are the asset class to own for safe U.S.-based income. They do have a positive correlation to bonds, but the higher income stream should help protect them from changes in rates. Barring a recession, preferred stocks are a good safety asset class.

Utilities

Yield: 3.65% **Risk:** 16.87%

TREND	CARRY	
D	D	Utilities declined sharply along with other rate-sensitive asset classes. This asset class won't provide good exposure if rates continue to rise.

International Real Estate

Yield: 4.28% **Risk:** 11.83%

TREND	CARRY	
C	A	International real estate is still a great asset class for income, but the increased volatility has eaten away at the relative risk per unit of income. However, it will likely rebound as stocks find some better footing.

EM Infrastructure

Yield: 3.77% **Risk:** 11.75%

TREND	CARRY	
B	B	If EM stocks are too volatile, we believe this asset class is a great way to access to the economic growth of the emerging markets with some decent income and lower volatility. Additionally, most of these stocks are backed with hard assets and positive cash flow.

Income Report Card: Bonds

Grades: Quintile rankings of asset classes
Downgrade Upgrade No Change

Trend: 12-month momentum
Carry: Current yield / current std. deviation

Risk: Based on 60-day std. deviation

U.S. Treasurys

Yield: 2.55% **Risk:** 3.05%

TREND	CARRY	
F	F	Treasurys may be the purest way to express an interest rate position. As a result, this asset class represents the tip of the spear on the future of interest rates. If you must hold Treasurys, we believe short duration/cash-like is best..

U.S. Investment Grade Credit

Yield: 3.68% **Risk:** 3.25%

TREND	CARRY	
D	D	Things are looking a bit bleak for this asset class as volatility picked up slightly in February and March. This change just reinforces our belief that high-yield corporates are better in the current environment.

Municipal Bonds

Yield: 2.68% **Risk:** 1.75%

TREND	CARRY	
C	C	Muni bonds have improved since last month and look pretty good compared to Treasurys. However, managing duration of this asset class is important as they tend to be longer in duration than Treasurys. Barring a recession, look to high-yield munis instead.

High-Yield Municipal Bonds

Yield: 5.26% **Risk:** 2.90%

TREND	CARRY	
B	B	This asset class is riskier than rated muni bonds, but barring a recession (which seems unlikely at this juncture), we believe high-yield municipal bonds are a good alternative to any investment-grade holding. If you are looking for safe cash flow, we think this asset class is likely the best opportunity.

U.S. High-Yield Corporate Bonds

Yield: 6.19% **Risk:** 3.06%

TREND	CARRY	
B	B	Given the stability of the economy and the likelihood of increasing interest rates down the road, U.S. high-yield corporate bonds are one of our favorite asset classes. We expect this asset class to be a relative outperformer for the year.

Emerging Market Corporate Debt

Yield: 6.42% **Risk:** 1.98%

TREND	CARRY	
A	A	EM corporate debt is one of our favorite asset classes for 2018. The low price volatility and high current income makes this asset class very attractive.

Emerging Market Sovereign Debt

Yield: 5.50% **Risk:** 4.03%

TREND	CARRY	
C	C	There are many reasons to like emerging market assets, but this asset class is getting overpriced relative other bonds. Look to EM corporate debt instead.

International Sovereign Debt

Yield: 0.69% **Risk:** 6.13%

TREND	CARRY	
A	F	This asset class has been a great performer, but has volatility similar to stocks and a yield that offers very little cover in the case of interest rates rising, which they have been. A pullback in currency values could lead to a very sharp decline, such as the near 4% drawdown in September.

Mortgages

Yield: 3.30% **Risk:** 2.78%

TREND	CARRY	
F	D	Mortgages continue to struggle in a rising rate environment. We have seen a downgrade in trend as the course of interest rate increases becomes more visible. Due to this macro trend, mortgages most likely do not belong in an income portfolio.

Short Term Treasurys (Cash Proxy)

Yield: 2.29% **Risk:** 0.73%

TREND	CARRY	
D	A	Right now we would prefer credit risk over short duration, but in the event of recessionary environment, cash is starting to look very attractive.

Investing involves risk, including possible loss of principal. The value of any financial instruments or markets mentioned herein can fall as well as rise. Past performance does not guarantee future results.

This material is distributed for informational purposes only and should not be considered as investment advice, a recommendation of any particular security, strategy or investment product, or as an offer or solicitation with respect to the purchase or sale of any investment. Statistics, prices, estimates, forward-looking statements, and other information contained herein have been obtained from sources believed to be reliable, but no guarantee is given as to their accuracy or completeness. All expressions of opinion are subject to change without notice.

Nic Millikan and Nathan J. Rowader are registered representatives of ALPS Distributors, Inc.

Definition of Terms

Alerian MLP Infrastructure Index is the leading gauge of large- and mid-cap energy master limited partnerships (MLPs). The float-adjusted, capitalization-weighted index includes some of the most prominent companies and captures approximately 75% of available market capitalization.

Bloomberg Barclays EM Sovereign Bond Index is a rules-based market-value weighted index engineered to measure the fixed-rate local currency sovereign bonds issued in emerging markets as identified by Bloomberg.

Bloomberg Barclays Global Aggregate Index represents a broad-based measure of the global investment-grade fixed income markets, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

Bloomberg Barclays Global Treasury ex-USD Index is an unmanaged index composed of those securities included in the Barclays Global Aggregate Bond Index that are Treasury securities, with the US excluded while hedging the currency back to the US dollar.

Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

Bloomberg Barclays U.S. Corporate High-Yield Bond Index covers the USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Bloomberg Barclays U.S. Credit Index is an index composed of corporate and non-corporate debt issues that are rated investment grade (Baa3/BBB) or higher.

Bloomberg Barclays U.S. Mortgage Backed Securities (MBS) Index tracks the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

Bloomberg Barclays U.S. Municipal Bond Index covers the USD-denominated, long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

Bloomberg Barclays U.S. Municipal High Yield Index measures the noninvestment-grade and nonrated U.S. dollar-denominated, fixed-rate, tax-exempt bond market within the 50 United States and four other qualifying regions (Washington D.C., Puerto Rico, Guam and the Virgin Islands).

Bloomberg Barclays U.S. Treasury Index is an unmanaged index of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Bloomberg Barclays U.S. Treasury Bond 1-3 Year Term Index is an unmanaged index of public obligations of the U.S. Treasury includes public obligations of the U.S. Treasury with a maturity between 1 and up to (but not including) 3 years.

BofA Merrill Lynch U.S. Core Fixed Rate Preferred Stock Index consists of investment-grade, fixed and fixed-to-floating rate U.S. dollar-denominated preferred securities.

CBOE Volatility Index is a popular measure of market risk and is constructed using the implied volatility of S&P 500 index options.

Consumer price index (CPI) is an index number measuring the average price of consumer goods and services purchased by households. The percentage change in the CPI is a measure of inflation.

Credit Suisse Emerging Market Corporate Bond Index consists of U.S. dollar-denominated fixed-income issues from Latin America, Eastern Europe and Asia.

Dow Jones Global ex-U.S. Select REIT Index measures the performance of equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally, excluding the U.S.

Dow Jones Industrial Average (DIJA) is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry and are listed on the New York Stock Exchange.

Dow Jones U.S. Real Estate Index measures the performance of the real estate industry of the U.S. equity market.

JPMorgan Global Manufacturing Purchasing Managers' Index is a composite index that serves as a global economic indicator by measuring different business conditions in 24 countries, including global manufacturing output, new orders and employment across the global manufacturing sector.

MSCI EAFE (Europe, Australasia and Far East) Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

MSCI Emerging Markets Infrastructure Index captures the global opportunity set of companies that are owners or operators of infrastructure assets.

MSCI Europe Index is a free float-adjusted market capitalization index designed to measure developed market equity performance in Europe.

MSCI World Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global developed markets.

Max drawdown is the percentage of loss that an asset incurs from its peak net asset value to its lowest value.

NASDAQ-100 is a modified capitalization-weighted index that includes the largest nonfinancial U.S. and non-U.S. companies listed on the NASDAQ stock market across a variety of industries, such as retail, healthcare, telecommunications, wholesale trade, biotechnology and technology.

NYSE Advance/Decline Indicator is a technical indicator that charts the difference between the number of advancing stocks and declining stocks on the NYSE in a given market on a given day.

NYSE New Hights/Lows is a technical indicator that charts the highest and lowest prices over 52 weeks of NYSE stocks in a given market on a given day.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

S&P 500 Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector.

S&P 500 Index is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

S&P 500 Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.
Sharpe ratio is a ratio developed by Nobel laureate William F. Sharpe to measure how a fund performs relative to the risk it takes.

Standard deviation measures the degree to which a fund's return varies from its previous returns or from the average of all similar funds.

Valuation is the process of determining the value of an asset or company based on earnings and the market value of assets.

VIX (the ticker symbol for the Chicago Board Options Exchange Volatility Index) is a popular measure of market risk and is constructed using the implied volatility of S&P 500 index options.

Yield is the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost or on the U.S. government's debt obligations.

Salient®

4265 San Felipe
8th Floor
Houston, TX 77027

800-994-0755

www.salientpartners.com

FOR006420
033119